

Sales Tax Disrupters in Utah

Presented to
Interim Joint Revenue and Tax Committee

October 16, 2019
William F. Fox, Director

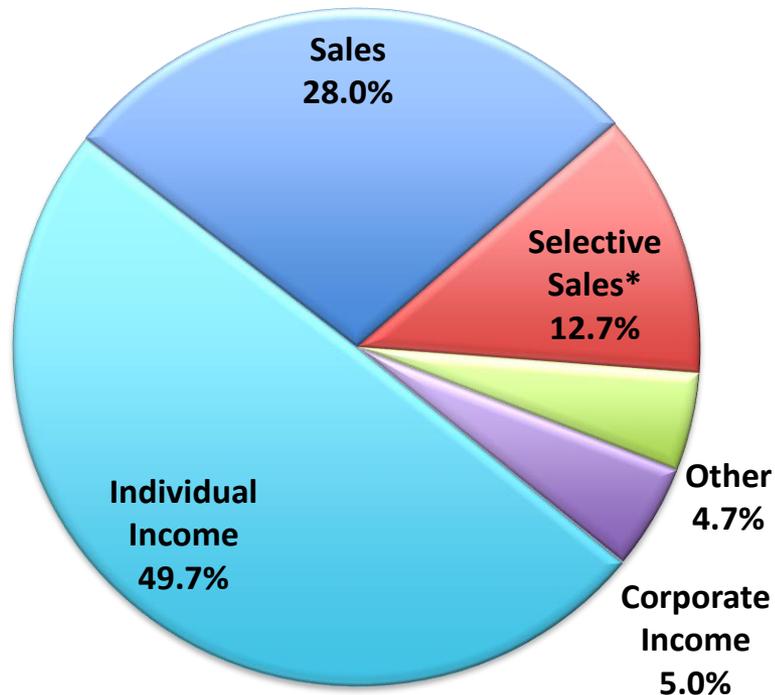


THE UNIVERSITY OF
TENNESSEE
KNOXVILLE

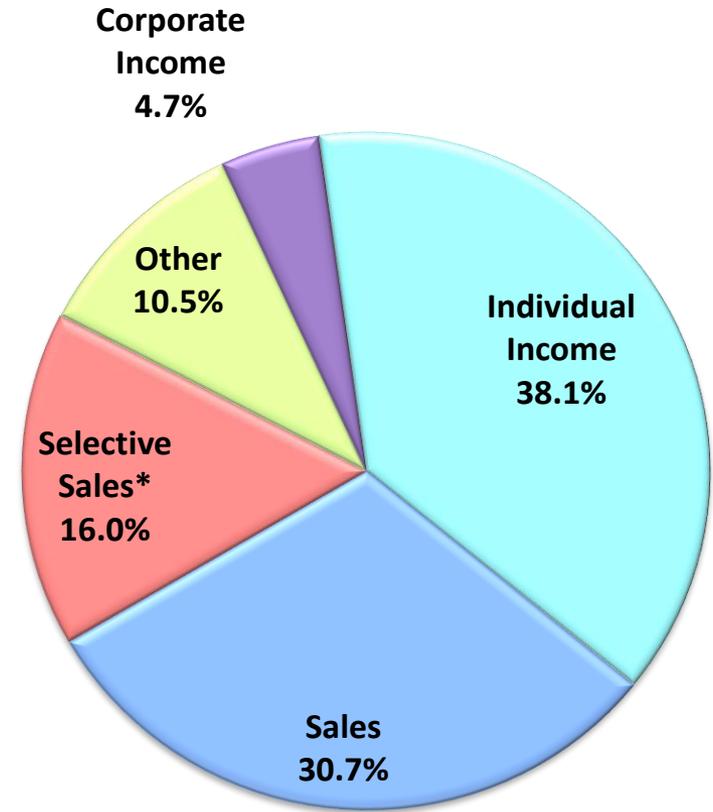
BOYD CENTER FOR BUSINESS
AND ECONOMIC RESEARCH

Utah Relies very Heavily on the Individual Income Tax

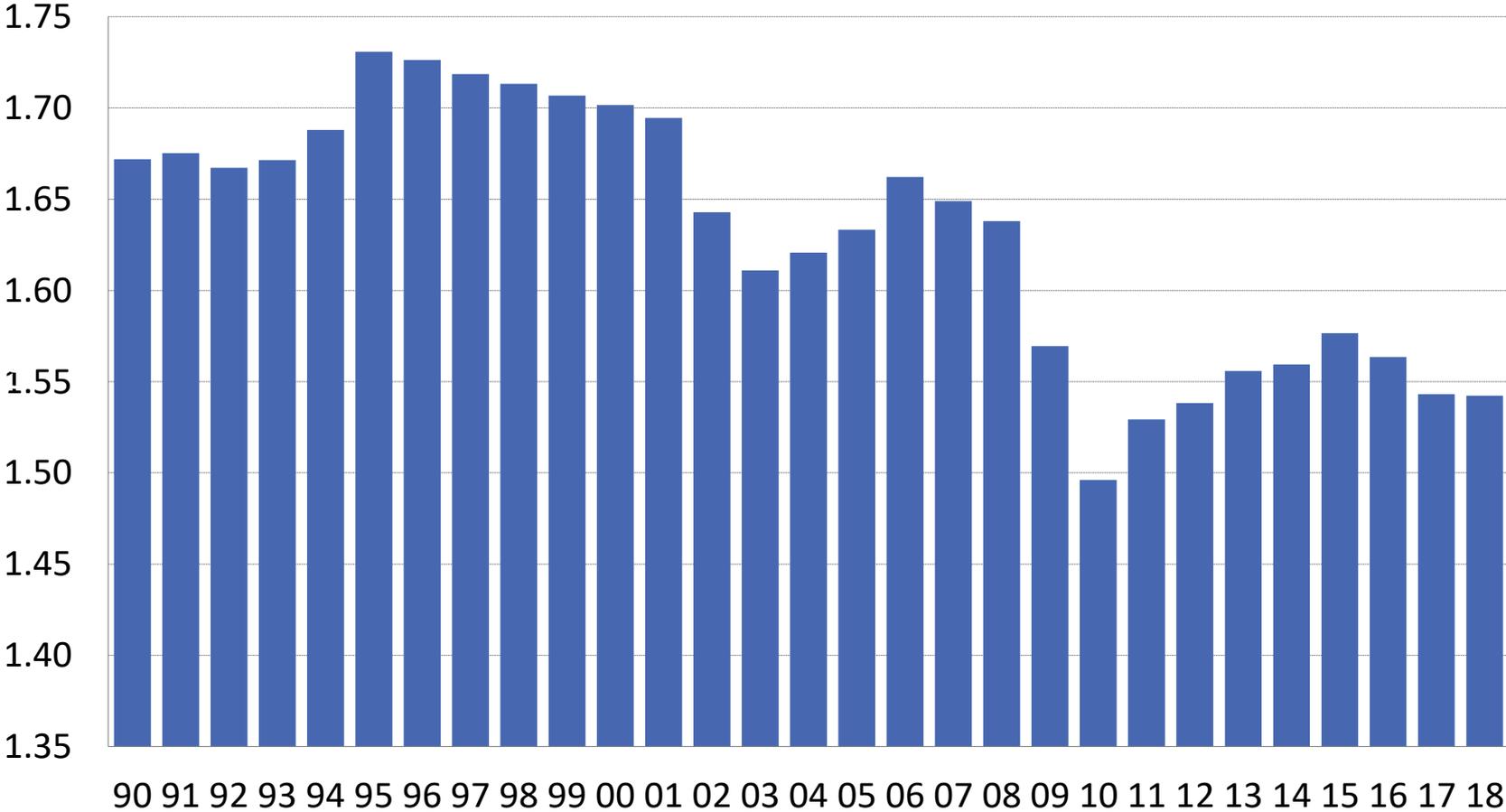
Utah



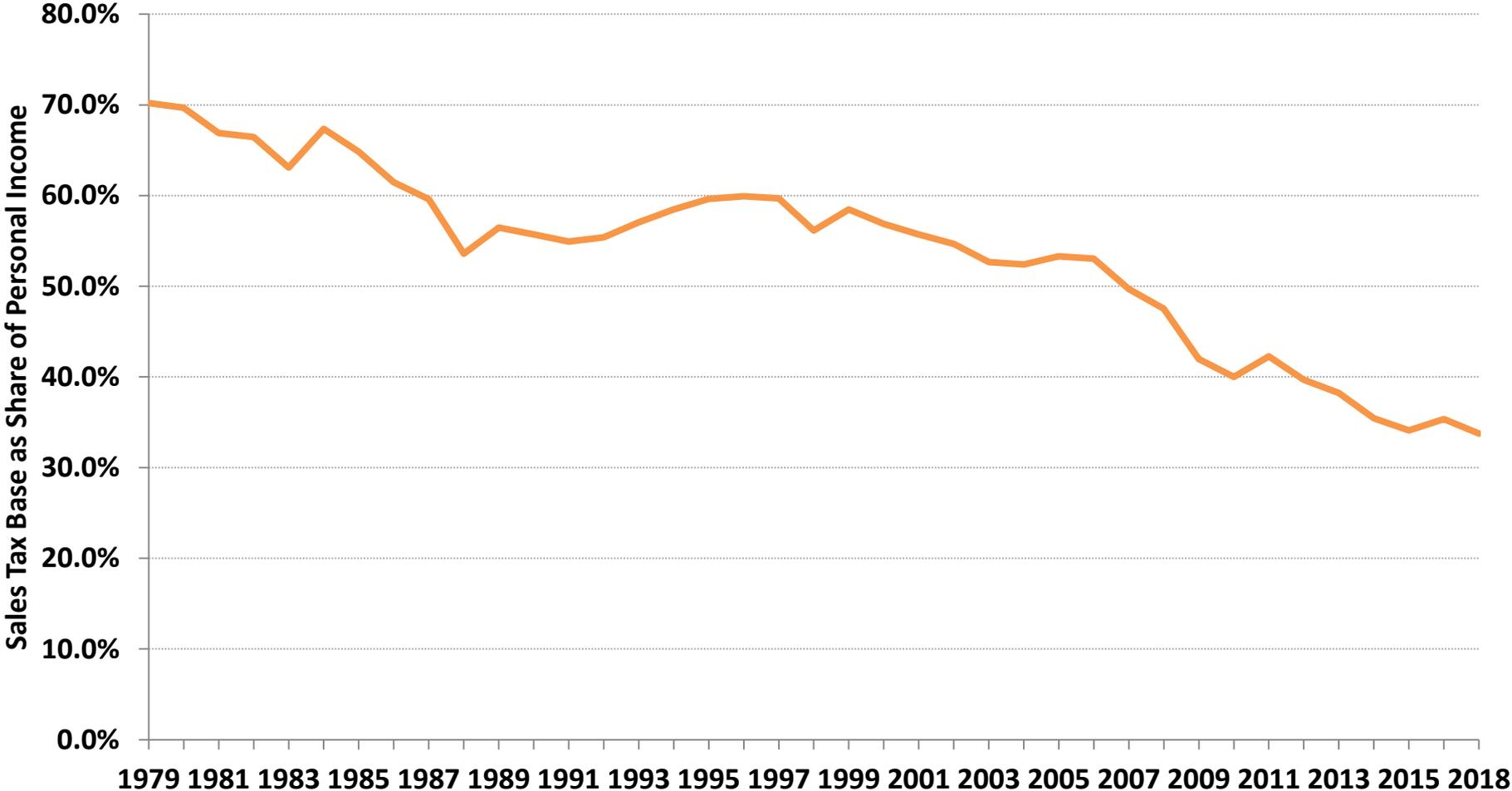
United States



State General Sales Tax Collections Falling as a Percentage of GDP



Sales Tax Base as Percentage of Personal Income, 1979–2018



CAUSES OF CHANGE IN THE SALES TAX

- Legislated Exemptions
 - Fairness - Food, Clothing
 - Economic Development - Holidays, Location

CAUSES OF CHANGE IN THE SALES TAX

- Legislated Exemptions
 - Fairness - Food, Clothing
 - Economic Development - Holidays, Location
- Changes in Consumption Patterns

Services are a Rapidly Growing Share of Personal Consumption Expenditures, 1979 and 2018

	1979	2018
Total Expenditures	100.0%	100.0%
Durable Goods	14.3%	10.5%
Autos	5.7%	3.7%
Furn & Household	4.1%	2.4%
Other Durables	4.5%	4.4%
Nondurable Goods	32.3%	20.6%
Food & Beverage	13.8%	7.2%
Other Nondurables	18.5%	13.5%
Services	53.5%	68.8%
Health Care	9.4%	16.8%

CAUSES OF CHANGE IN THE SALES TAX

- Legislated Exemptions
 - Fairness - Food, Clothing
 - Economic Development - Holidays, Location
- Changes in Consumption Patterns
- Cross Border Shopping
 - Mail Order
 - Driving Next Door
 - E-Commerce

What Wayfair Did?

- Eliminated the judicially (Quill) created tax shelter based on physical presence rule and permits states to impose the sales tax compliance responsibility on remote firms in cases where it does not burden interstate commerce
- Does this apply equally to all cross border sales?
- Bottom line is Wayfair is a step in the right direction, but does not get the sales tax where it needs to be – moves from physical presence rule to size of vendor rule

What Wayfair did not do

- Enact legislation imposing sales tax compliance on behalf of states - becomes incumbent on those states wanting to enforce the sales tax on remote transactions to ensure legislation/regulations are in place
- Permit enforcement of compliance on all remote sales

Modest Number of B2C Companies With Sales Over \$25 Million

> \$1 billion	57
\$500 - \$1 billion	43
\$125 - 500 million	207
\$40 - \$125 million	456
\$25 - 40 million	237

Source: Internet Retailer

Total Number of Sellers on Marketplaces, 2017

Amazon	2,000,000
eBay	25,000,000
Walmart	15,000
Houzz	20,000
Sears	7,000
Etsy	1,900,000
Newegg	10,000

Source: Internet Retailer

Challenge of collecting on remote sales is not over

- Enforcement could remain difficult for many firms –
 - Identifying which have nexus
 - Will all related companies be aggregated – how will this be enforced/audited?
 - Will all channels be aggregated – own website, all marketplaces?
 - How to decide when a threshold is met during a year.
- Interacts with thorny questions of the destinations' location – for example, where services purchased by buyer with multiple locations are sourced

The Changing Sales Tax Base Remains

- Digitization/sharing economy will continue eroding the tax base
- Avoidance behavior will continue
- The bottom line, revenues will be smaller than some expect

AUTONOMOUS VEHICLES

My Expectations for AVs

- Owned in fleets – part of asset sharing that results in fewer vehicles
- Electric and charged w/o plug in
- Lead to more travel – less for seeking parking, but overall more because it is easier and less costly to travel
- Will be a long transition where traditional vehicles and AVs operate together, but dynamics could hasten the change - planning for the transition will be very difficult

Overall Effects will Ultimately Mean

- Less congestion
- Greater safety
- Lower expense for mobility
- Reduced environmental effects

New Era Best Thought of as Mobility on Demand

- Vehicles, scooters, bicycles
- Food and other consumer delivery
- Freight delivery
- Drones and air travel

Table 1. Vehicle-Related Employment: Tennessee and the U.S, 2017

Category	Tennessee		U.S.	
	Employment	Share	Employment	Share
Total Employment	2,930,932	100.0%	143,859,855	100.0%
Vehicle Manufacturing	72,507	2.47%	1,023,674	0.71%
Vehicle Support	118,993	4.06%	5,425,489	3.77%
Vehicle Intensive Use: Motor Vehicle Operators and Other On-the-Job Drivers	291,000	9.93%	16,571,180	11.52%
Total Vehicle-Related Employment	482,500	16.46%	23,020,343	16.00%

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages; Bureau of Labor Statistics, Occupational Employment Statistics.

Some Employment Effects of Autonomous/electric Vehicles

- Fewer cars manufactured
 - Many fewer parts, shorter supply chain for electric
 - Most of vehicles' value will shift from powertrains to batteries, computers and electronics
- Fewer drivers
 - Motor vehicle drivers- Taxis, vehicle sharing services, truck drivers - 3.8 million
 - On the job drivers
- Support industries ultimately affected

Some tax/revenue implications of AVs and EVs

- Sales tax revenues decline with
 - fewer vehicles sold
 - fewer support services sold
- Motor vehicle registrations and title fees decline
- Motor fuel tax revenues fall with more electric vehicles
- Parking, parking fines, traffic citations, registrations, gas taxes, etc. at local level

Table 3: Sales Tax on Vehicles

	Standard Sales Tax Rate	Local Transit	Taxis	Automotive Washing and Waxing	Road Service and Towing	Auto Service Except Repair	Parking Lots & Garages	Rustproofing and Undercoating	Labor Charges for motor Hehicles	Repair Materials, Generally	Limousine Service
California	7.25	E	E	E	E	7.25	E	E	E	7.25	E
New Hampshire	0										
New York	4	E	E	4	4	4	4	4	4	4	4
Ohio	5.75	E	5.75	5.75	5.75	5.75	E	5.75	5.75	5.75	5.75
Tennessee	7	E	E	7	7	7	7	7	7	7	E
Texas	6.25	E	E	E	E	E	6.25	E	E	6.25	E
States	45	6	10	24	20	25	21	26	23	47	17

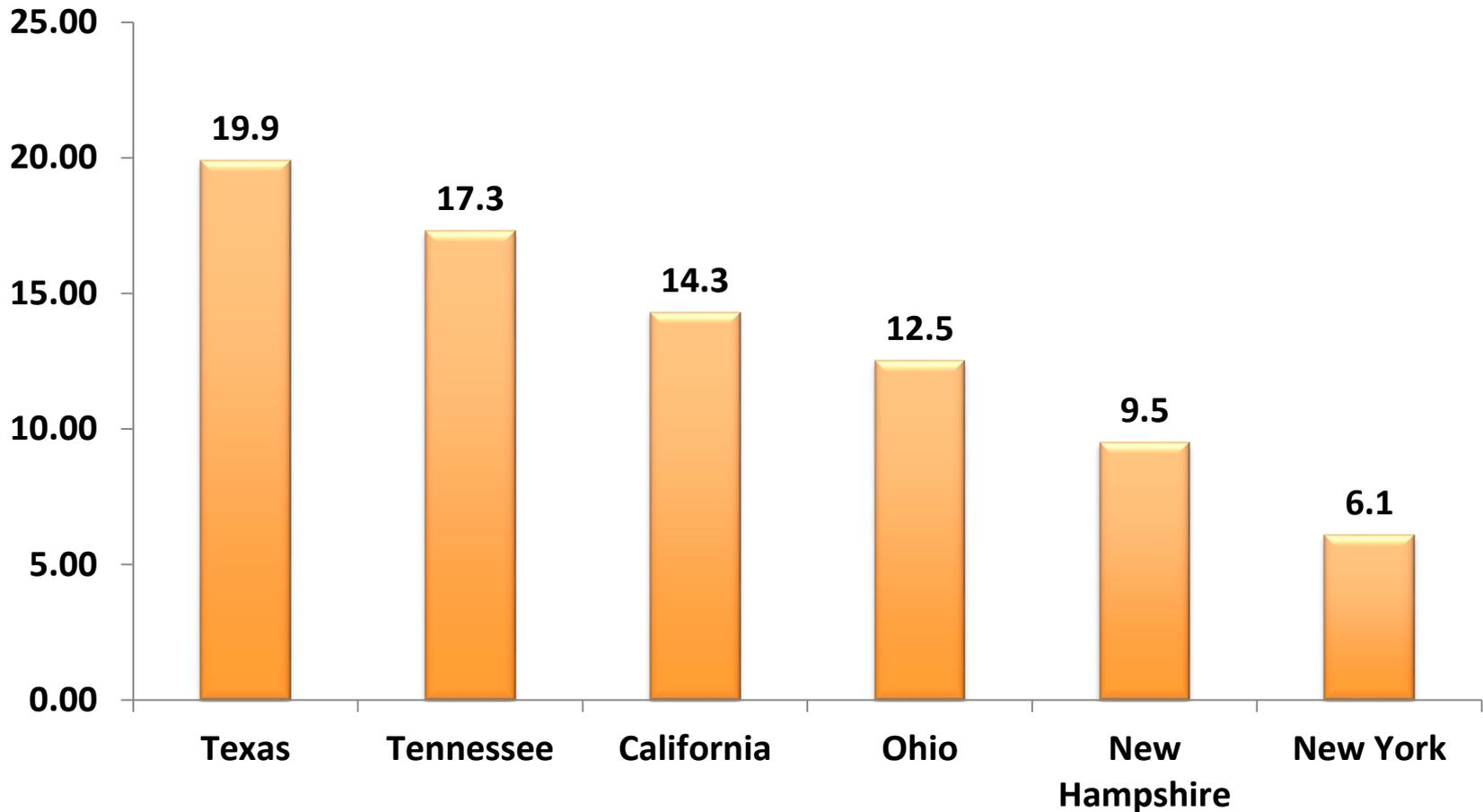
Source: FTA 2017 Services Taxation Survey
<https://www.statetaxissues.org/services/2017/>

Table 2: Gasoline and Diesel Fuel Taxes

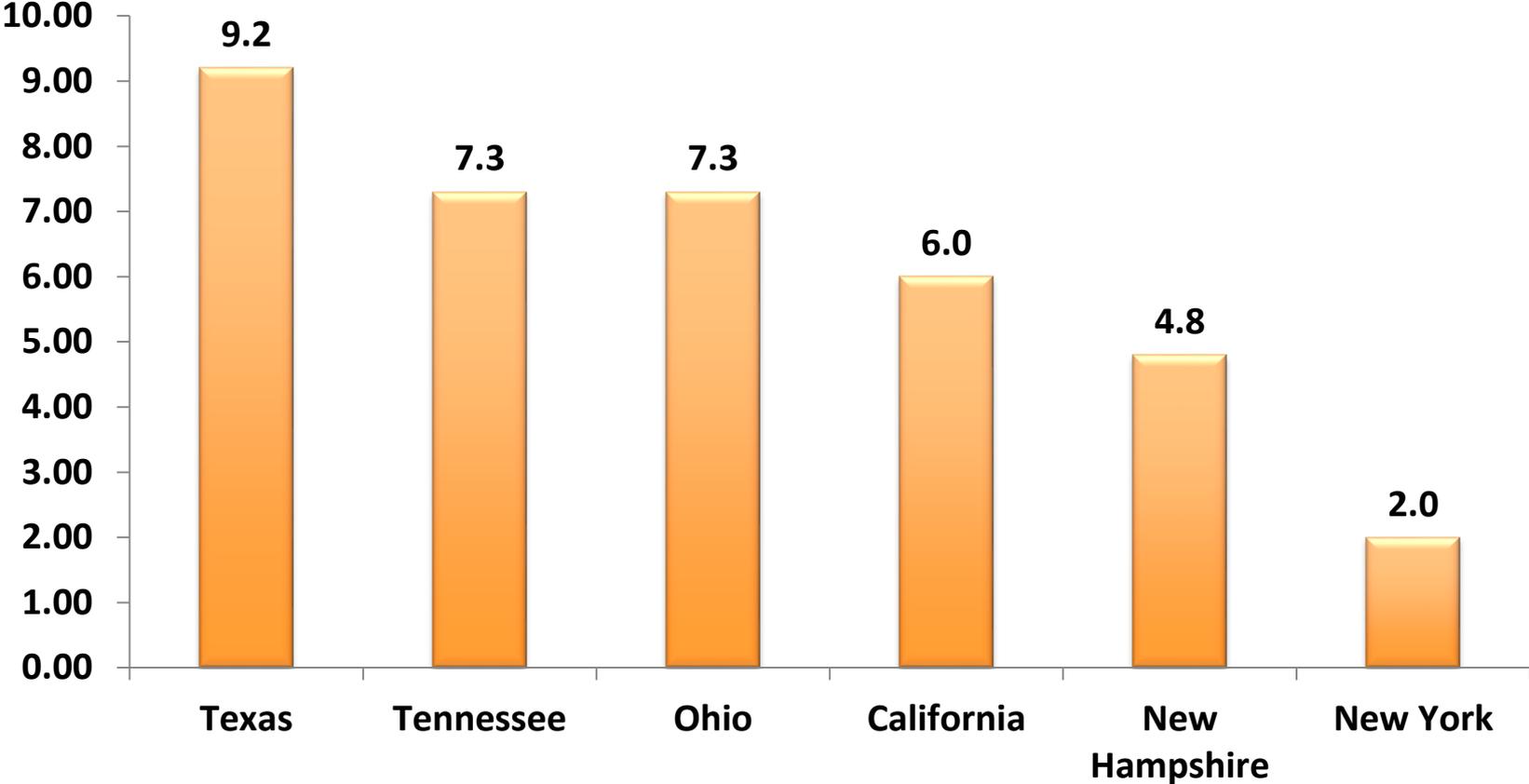
	State Gasoline Excise Tax	Other State Vehicle Taxes	Total	State Diesel Excise Tax	Other State Diesel Taxes	Total
California	41.7	13.83	55.53	36	51.35	87.35
New Hampshire	22.2	1.63	23.83	22.2	1.63	23.83
New York	8.05	37.57	45.62	8	37.02	45.02
Ohio	28	0.01	28.01	28	0.01	28.01
Tennessee	25	1.4	26.4	24	1.4	25.4
Texas	20	0	20	20	0	20
States	23.06	11.15	34.21	23.04	13.24	36.27

All taxes state in cents per gallon
Source: ATPI (2018).

States Differ Significantly in the Share of Revenues Raised from Vehicles



Share of Taxes Lost with Full Adoption of AVs



Factors affecting revenue loss

- Importance of vehicle related taxes in tax structure.
- Many revenue sources are inelastic so fall relative to overall structure even without AVs
- Fuel tax revenues are affected more than vehicle taxes.
- Electric vehicle tax
- Total potential revenue loss depends on reduction of vehicles and electric, not the timing

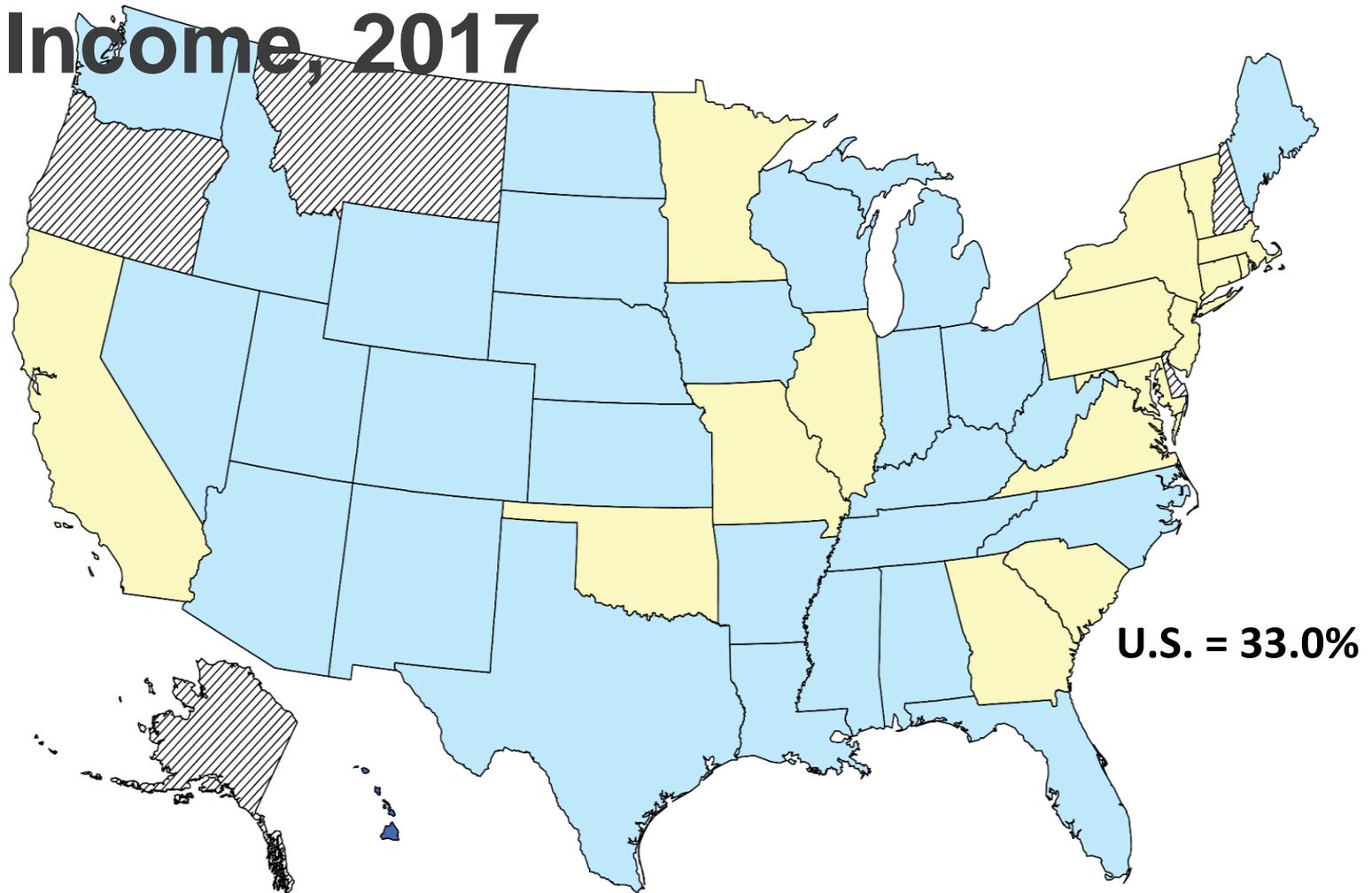
Why change policy now?

- Can create a conducive environment that ultimately leads to the U.S. being a leader in the AV industry.
- Easier to establish appropriate policy now before positions become entrenched.
- Places and people are affected unevenly – rural areas most likely to be relative losers.
- Limit revenue losses.

Policy options – keep tax structure up-to-date

- Consider moving from taxes on vehicles and fuel to taxes on transportation services (sales, VMT taxes, etc.), such as vehicle sharing and taxis.
- Carefully consider how to tax other shared assets with an eye towards level playing field, but must define the comparable service being provided.
- Collect at the most efficient point in the supply chain.

State Sales Tax Base as a Percentage of Personal Income, 2017



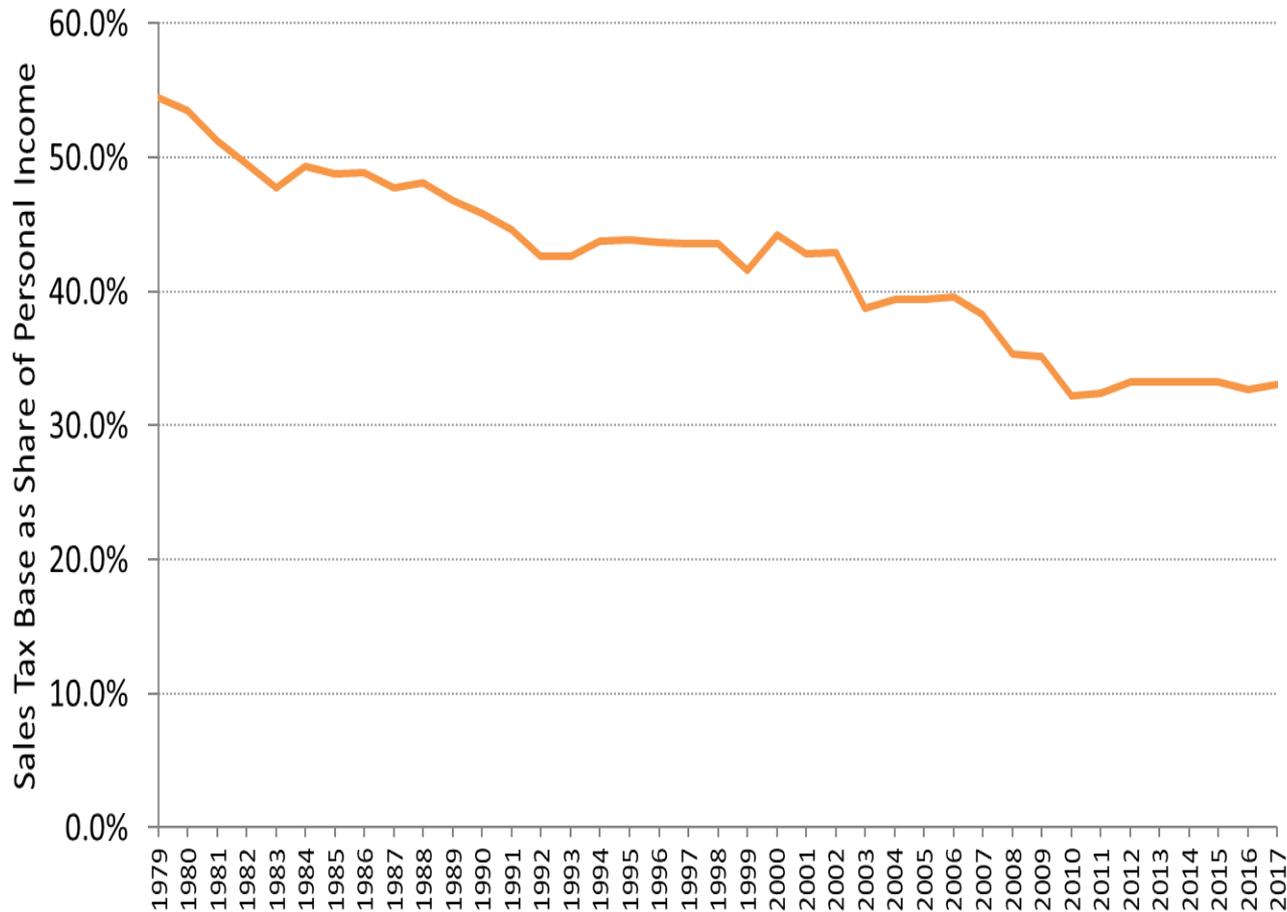
Less than 33.0%
 33.0% to 63.0%
 Greater than 63.0%
 Not Levied

--16--

--1--

--5--

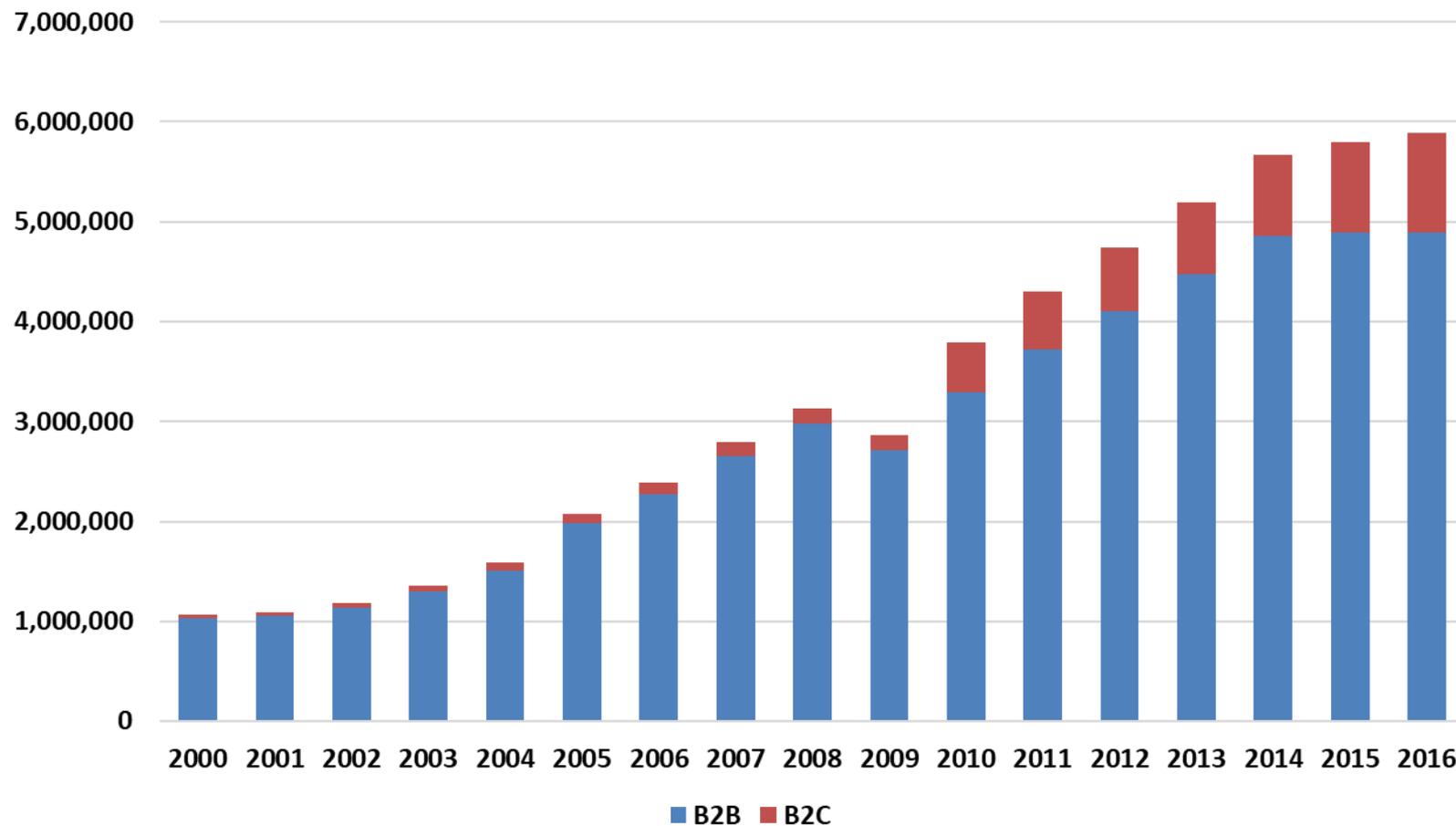
Sales Tax Base as Percentage of Personal Income, 1979–2017



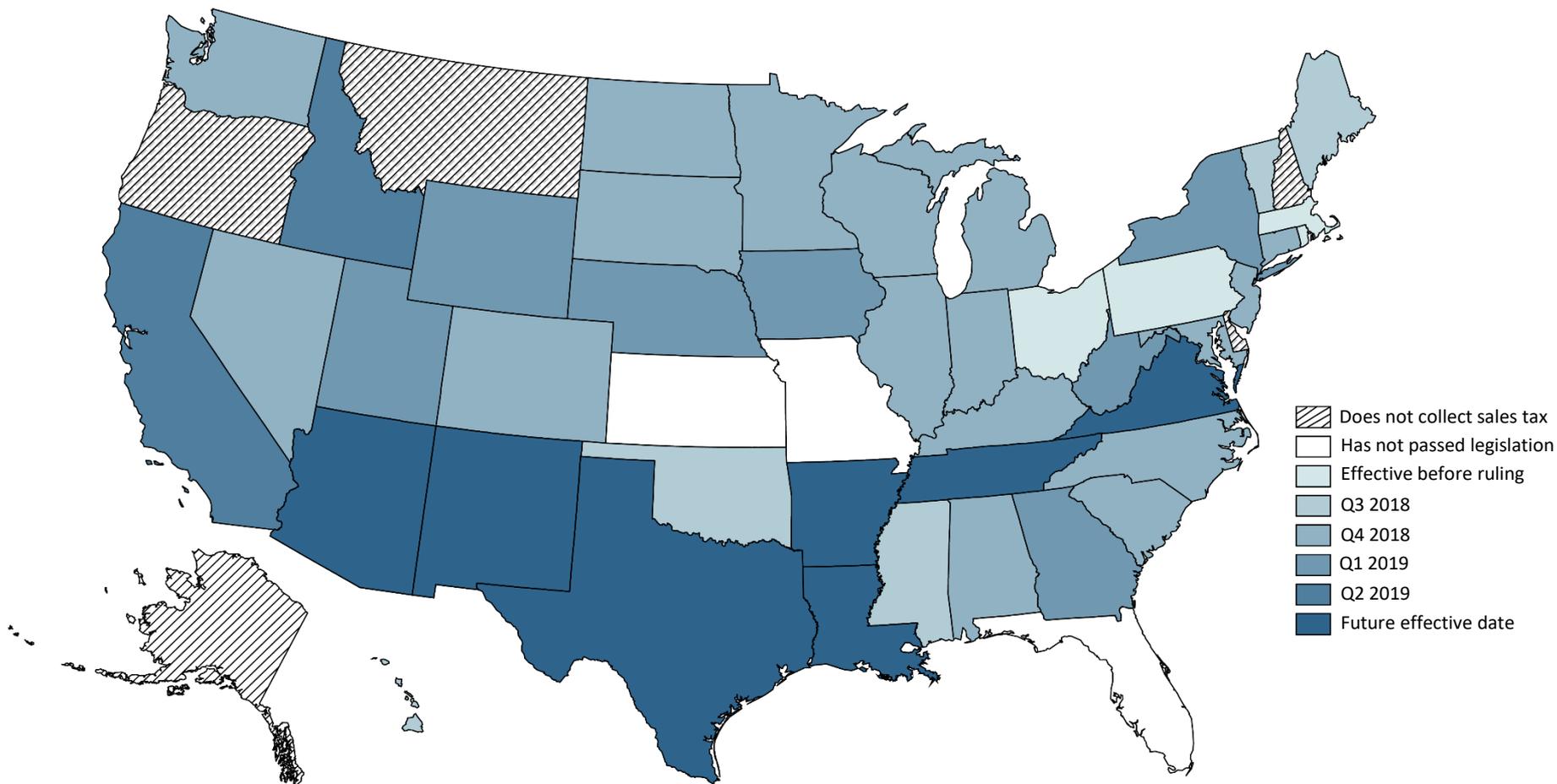
Compound Annual Growth Rate 2008-2018 for Major Taxes in Utah

Tax_Type	2008	2018	CAGR
Total Taxes	6,109,256	8,038,709	2.78%
Sales and Gross Receipts Taxes	2,644,034	3,268,914	2.14%
Income Taxes	2,987,767	4,392,285	3.93%
Personal Income	90,161,800	146,422,500	4.97%

E-Commerce Sales are Growing Very Rapidly

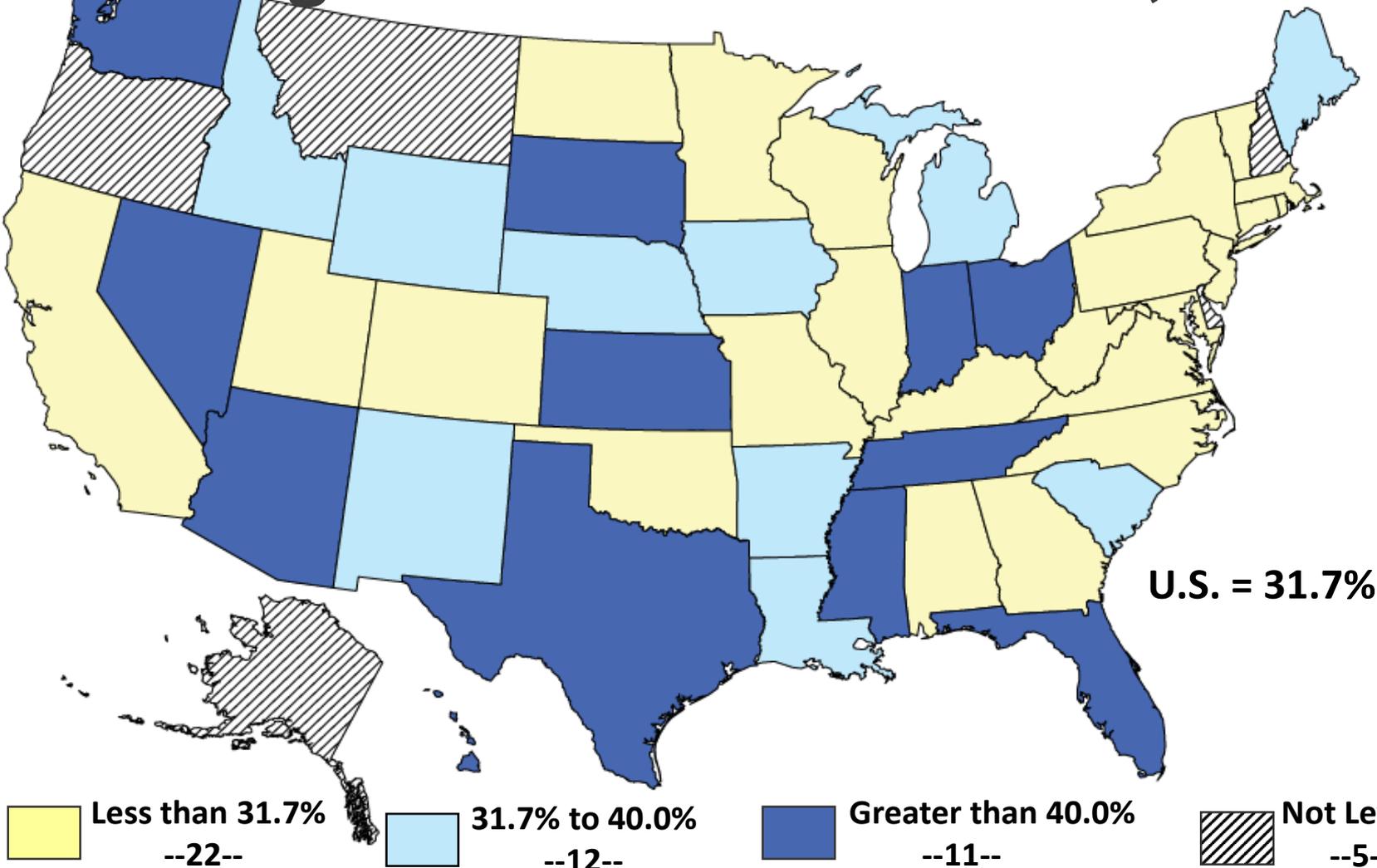


Most States Have Passed Legislation Since Wayfair Decision



Pew hopes to offer states a framework for evaluating the revenue effects of developing economic trends, including how they might influence state tax bases. The objective of this work is to encourage policymakers to assess the long-term sustainability of their state's tax structure and future risks to both currently reliable and already eroding revenue streams.

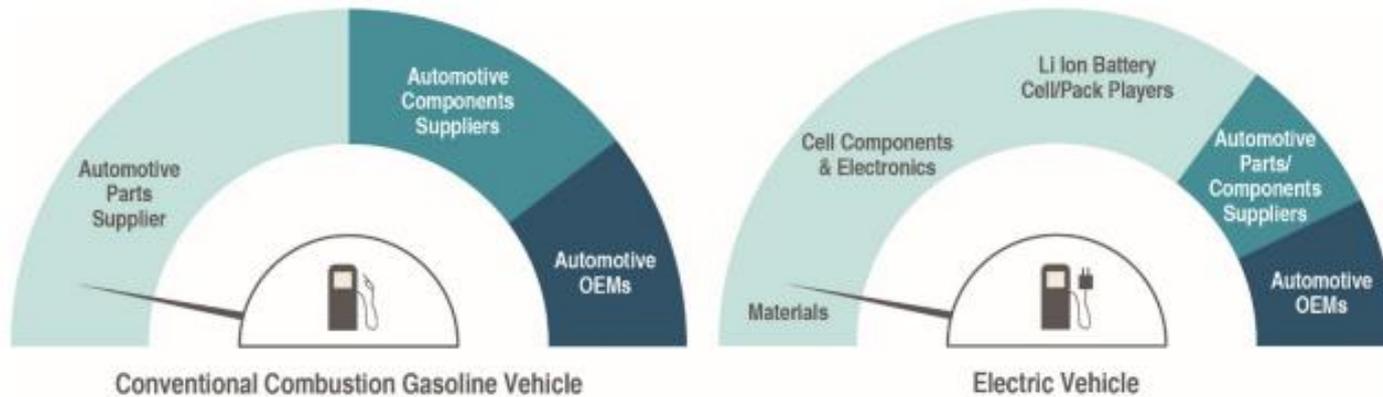
State General Sales Taxes as a Percentage of Total State Taxes, 2017



Challenge of collecting on remote sales is not over

- Many state specific issues remain, such as thresholds, which sales apply to thresholds, simplification, marketplace facilitator, etc.
- Thresholds may be high enough to continue distorting the economy, and limit tax revenues collected on remote firms – ultimately want an economy where the tax system is the same for large and small businesses
 - Marketplace legislation helps

Figure 7. Industry Structure for Conventional and Electric Vehicles



Source: https://www.iedconline.org/clientuploads/Downloads/edrp/IEDC_Electric_Vehicle_Industry.pdf.

Utah Sales Tax Base Declining as Percentage of Personal Income, 1979–2018

